

# **Mendocino County Employee Health Benefit Program**

The Mendocino County Employee Health Plan, which provides benefits to all permanent employees, has operated at a deficit for many years. The County has begun to implement measures to reduce the deficit and needs to continue to work on the health benefits program to make it financially stable.

## **Method of Investigation**

The Grand Jury interviewed the past and present County Risk Managers and an independent health insurance broker. Jury members attended a Health Benefits Committee (Committee) meeting and two Board of Supervisor's (Board) meetings, reviewed financial records, contracts, the health plan, and minutes of Committee meetings.

## **Background Information**

The County is self-insured and buys stop-loss insurance for catastrophic illnesses. The County pays the medical claims from its own funds as opposed to buying a plan from an insurance company.

As part of its employee benefits package, the County funds and staffs a Wellness Program and funds a health insurance plan for employees and their dependents. Approximately 1,339 employees receive insurance benefits. Employees do not pay premiums for basic coverage, but can chose to pay for dependent or enhanced benefits. Approximately 500 employees receive only basic benefits.

All services, except the Wellness Program, are contracted out to five major contractors:

- A managed care provider as claims administrator. The claims administrator functions like an insurance company and pays all claims with County funds except those exceeding the stop loss.
- A stop-loss carrier. Stop-loss insurance provides coverage for all medical claims that exceed a certain amount
- A consulting firm that provides oversight and evaluation of all plan providers. It is the responsibility of the consultant to negotiate discount rates from the health care providers and act as the plan administrator.
- Health care providers, called preferred providers, contract to accept a fee schedule developed by a network of local health care professionals.

County plan oversight is provided in two ways:

- The Board-appointed 13-member Health Benefits Committee comprising eight County bargaining unit representatives, four County staff persons, and a private contracted consultant.

- A County Risk Manager and staff that act as liaison to the Board, the Committee, and the consultant.

## **Findings**

- 1. For several years the fund has operated with a deficit paid out of the general fund. During the mid-nineties, the County did not increase premiums because there was a freeze on wages. As a result, employee premium payments and County contributions did not cover expenses.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

- 2. In August 2000, the deficit was \$1.7 million. The County has implemented measures to reduce the deficit, such as an 11.6% increase in both employee and County contributions. As of March 2001, the deficit had been reduced to \$1.3 million. The Committee proposed a further increase in contributions.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

- 3. The consultant's March 2001 report to the Board indicated that in comparable public employee health plans, single employees pay an average of 11% of their health plan premiums, and employees with dependents pay an average of 19%. In the County's health plan, single employees are paying an average of 3% of their health care contribution, and employees with dependents are contributing an average of 23%.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

- 4. Any change in employee premium payments must be agreed upon by bargaining units through the meet and confer process.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

- 5. A review of vendor contracts shows a lack of performance requirements. Therefore, the Committee cannot effectively discharge one of its duties, which is oversight.**

**Response (Risk Management):** The Department disagrees in part with this finding because vendor contracts do have specific performance requirements listed in them.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager.

**6. Only the consultant is contractually responsible for health plan vendor oversight and evaluation.**

**Response (Risk Management):** The Department disagrees with this finding. Risk Management currently reviews all contracts associated with the health plan for performance compliance.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager.

**7. The contract between the County and the consultant does not require competitive bids for the five health services contractors to the County.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

**8. When seeking contractors, the County is at a disadvantage because the insurance base is small.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

**9. The County's Wellness Program strives to reduce health claims by educating employees about how and when to use their health benefits, as well as how to maintain a healthy lifestyle.**

**Response (Risk Management):** The Department agrees with this finding.

**Response (Board of Supervisors):** The Board agrees with this finding.

**10. Currently, the Plan offers no incentives to employees not to use their health benefits.**

**Response (Risk Management):** The Department disagrees with this finding. The Risk Management Department sends informational flyers to each employee discussing the advantages of leading a healthier lifestyle without utilizing health insurance. The Health Plan also offers preventative health benefits at 100% coverage. The County also has a wellness program to assist employees in leading healthier lifestyles. The Health Plan design offers different co-pays and deductibles in order to ensure that employees don't over utilize their health benefits costing the plan more money.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager. The plan and its design offer many incentives to stay healthy.

## **Recommendations**

**A. Board implement action to eliminate the health benefits deficit and develop a reserve. (Findings 1, 2)**

**Response (Risk Management):** The Risk Management Department and the Health Benefits Committee have given a couple of solutions to the deficit to the Board of Supervisors, which is currently being discussed in the meet and confer process.

**Response (Board of Supervisors):** The Board agrees with this recommendation. The Board is committed to reducing or eliminating the deficit in the Health Plan.

**B. The Board consider charging a premium for basic health benefit coverage. (Finding 3, 4)**

**Response (Risk Management):** The Risk Management Department has submitted information regarding this subject to the Board of Supervisors, which is currently being discussed in the meet and confer process. The Board review health benefits contracts to check that performance evaluations are included. (Finding 5, 6)

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager. This discussion is in the meet and confer process.

**C. The Board review health benefits contracts to check that performance evaluations are included. (Findings 5, 6)**

**Response (Risk Management):** The Risk Management Department currently reviews all contracts for performance compliance.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager.

**D. The Board renegotiate health benefits contracts lacking performance review procedures. (Findings 5, 6)**

**Response (Risk Management):** The Risk Management Department is in the best position to review contracts that are lacking performance and make recommendations to the Health Benefits Committee and then to the Board of Supervisors.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager.

**E. The County follow standard competitive bidding procedures whenever health benefits contracts expire. (Finding 7)**

**Response (Risk Management):** Due to the rural area of Mendocino County it may not be in the County's best interest to go out for bid on an annual basis for all health related contracts. Some contracts expire within a year's time and it would be costly to go out for bid for each contract, especially if the contractors are performing to the standards listed in the contract and have proven that they are continually saving the County money.

**Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager. The Board is confident that the Risk Manager and the Health Benefits Committee have made every effort to reduce costs and make sure the County and our employees receive quality service for the price.

**F. The Board investigate the possibility of forming an employee health insurance alliance with neighboring cities and counties. Perhaps a larger client base could provide a cost savings. (Finding 8)**

**Response (Risk Management):** The Risk Management Department has contacted the surrounding Counties, Cities and School Districts with regards to their health plans and has found that most other entities have physician networks that are not in our geographical area. The Risk Management Department will continue to seek out information regarding other County's and City's health plans.

**Response (Board of Supervisors):** The Board agrees with this recommendation. The County will continue to seek refinement of our Health Plan and keep abreast of factors that influence the delivery of quality health benefits to our employees and their dependents.

**G. The Board investigate the possibility of an employee insurance savings plan. The plan could allow employees who do not make any claims during the year to receive a rebate or premium discount for the next year. (Findings 9, 10)**

**Response (Risk Management):** The recommendation requires more study and analysis. The Risk Management Department will engage in dialog with the Wellness Committee regarding incentives to employees to ease the burden on the Health Plan.

**H. Response (Board of Supervisors):** The Board agrees with the response provided by the Risk Manager. Further study and careful analysis will be

necessary to strike a balance between quality care and the proper funding of the plan.

### **Comment**

The Grand Jury commends the cooperative attitude of the Risk Management Department.

### **Response required**

Mendocino County Board of Supervisors